

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05 CEA-01
PA-01 PRS-01 L-03 H-01 /087 W
-----098352 191851Z /45

R 191635Z DEC 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC 9335
TREAS DEPT WASHDC

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PASS FRB

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: 1978 OUTLOOK FOR THE ENLARGED PUBLIC SECTOR DEFICIT
IN ITALY

REF: (A) ROME A-385, (B) ROME 19464

1. SUMMARY. THE 1978 ENLARGED PUBLIC SECTOR DEFICIT TARGET THAT IS CURRENTLY UNDER DISCUSSION (24,000 BILLION LIRE) IS ABOUT 20 PERCENT LARGER THAN THE PROBABLE OUTTURN IN 1977. IN RELATIONS TO NOMINAL GDP IN 1978, IT WOULD AMOUNT TO ABOUT 12 PERCENT, OR ABOUT THE SAME AS IN 1977. TOTAL DOMESTIC CREDIT EXPANSION OF 38,000 BILLION LIRE, WHICH IS TENTATIVELY ASSOCIATED WITH THIS DEFICIT, WOULD MEAN AN INCREASE IN TOTAL CREDIT OF ABOUT 16 PERCENT FROM 1977. THE INCREASE IN CREDIT WOULD BE ABOUT 20 PERCENT TO THE ENLARGED PUBLIC SECTOR AND ABOUT 12 PERCENT TO THE PRIVATE SECTOR IN 1978. PERCENTAGE TERMS OF THIS ORDER OF MAGNITUDE ARE NOT UNPRECEDENTED IN ITALY. IN FACT, ON A PERCENTAGE BASIS, THE 1978 FIGURES APPEAR

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UNCHANGED FROM 1977. END SUMMARY.

2. THE TABLE BELOW IS DERIVED FROM THE TABLE ON THE DISTRIBUTION OF DOMESTIC CREDIT IN ITALY FROM 1973 TO JULY 1977 WHICH WAS TRANSMITTED WITH REFAIR. IT SHOWS THE ANNUAL CHANGES IN CREDIT OUTSTANDING TO THE ENLARGED PUBLIC SECTOR, I.E., THE "DEFICITS" OF THIS SECTOR AND

ITS COMPONENTS AND THE PERCENTAGE INCREASES. IT ALSO SHOWS INCREASES IN CREDIT TO THE PRIVATE SECTOR IN BOTH ABSOLUTE AND PERCENTAGE TERMS.

3. CREDIT OUTSTANDING TO ENLARGED PUBLIC SECTOR (VARIATIONS IN BILLIONS OF LIRE, DEC/DEC; PERCENT CHANGES IN AMOUNTS OUTSTANDING)

PUBLIC SECTOR	1974	1975	1976	1977
JULY/DEC				
TREASURY	8,847	15,981	13,940	11,029
PERCENT CHANGE	23.3	34.2	22.2	14.4
OF WHICH: CON-				
SOL. OF LOCAL				
GOV'T. AND HEALTH				
INS. FUND DEBTS	(315)	(2,393)	(406)	(574)
LOCAL GOVERNMENTS	858	2,658	2,480	411
SOCIAL SECURITY	101	290	64	98
HOSPITALS	946	-1,199	82	-107
ENEL	-36	58	4	360
TOTAL ENLARGED				
PUBLIC SECTOR	11,343	18,792	17,797	12,041
PERCENT CHANGE	21.0	28.8	21.2	11.8
TOTAL AS PERCENT				
OF NOM. GDP	11.2	16.5	12.5	
PRIVATE SECTOR	8,156	12,000	15,485	8,018
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PERCENT CHANGE	12.7	16.6	18.4	8.0
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4. THE TABLE SHOWS THAT CREDIT TO THE ENLARGED PUBLIC SECTOR HAS BEEN GROWING AT AN ANNUAL RATE GREATER THAN 20 PERCENT SINCE 1974. IN 1977, THE PERCENTAGE INCREASE IS ESTIMATED TO BE 20 PERCENT, ASSUMING AN ENLARGED DEFICIT OF ABOUT 20,000 BILLION LIRE. FOR 1978, ASSUMING AN ENLARGED DEFICIT OF ABOUT 24,000 BILLION LIRE, THE INCREASE WOULD ALSO BE ABOUT 20 PERCENT. FOR 1977 AND 1978, THE INCREASES IN CREDIT EXPANSION TO THE PRIVATE SECTOR WOULD BE ABOUT 12 PERCENT EACH YEAR, ASSUMING INCREASES IN TOTAL DOMESTIC CREDIT OF ABOUT 32,000 BILLION LIRE IN 1977 AND 38,000 BILLION LIRE IN 1978.

5. LOOKING AT THE ENLARGED PUBLIC SECTOR DEFICIT OF RECENT YEARS FROM THE PERSPECTIVE OF CREDIT EXPANSION TO THAT SECTOR, CREDIT TO THE TREASURY, DEFINED TO INCLUDE THE ASSUMPTION BY THE TREASURY'S DEPOSIT AND LOAN FUND OF LOCAL GOVERNMENT AND HEALTH INSURANCE FUND DEBTS, HAS BEEN GROWING FASTER THAN TOTAL CREDIT AND FASTER THAN CREDIT TO THE PUBLIC SECTOR ON THE

ENLARGED BASIS. (THE 2,400 BILLION LIRE SURGE IN 1975 IS ATTRIBUTABLE TO THE TREASURY'S ASSUMING THE DEBTS OF THE HEALTH INSTITUTIONS TO THE HOSPITALS AS PROVIDED FOR IN LEGISLATION PASSED IN AUGUST 1974.) INCREASES IN CREDIT FROM BANKS TO LOCAL GOVERNMENTS AND FROM BOTH BANKS AND BOND ISSUES TO ENEL, THE NATIONAL ELECTRIC COMPANY, WERE SIGNIFICANT IN 1975 AND 1976.

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6. MEETING THE ENLARGED PUBLIC SECTOR DEFICIT TARGET OF 24,000 BILLION LIRE IN 1978 WILL REQUIRE SOME THOUGH DECISIONS ON THE PART OF THE GOVERNMENT. IN THE ABSENCE OF THESE ADDITIONAL MEASURES, THE "SPONTANEOUS" DEFICIT WOULD COME CLOSE TO 29,000 BILLION LIRE. HENCE, THE CURRENT ROUND OF NEGOTIATIONS BY THE GOVERNMENT WITH THE OTHER SIGNATORIES OF THE SIX-PARTY ACCORD AND THE LABOR UNIONS IS AIMED AT FINDING A CONSENSUS ON HOW TO ACHIEVE THE 5,000 BILLION LIRE REDUCTION. THE GOVERNMENT HAS MADE SOME PROPOSALS ON HOW TO REDUCE EXPENDITURES AND INCREASE REVENUES BUT HAS SO FAR FAILED TO WIN THE SUPPORT OF ITS INTERLOCUTORS.

7. A SIGNIFICANT FACTOR INCREASING THE 1978 DEFICIT IS SUPPOSED TO BE THE DEFICIT OF THE SOCIAL SECURITY FUNDS, WHICH IN 1978 IS ESTIMATED TO GROW ENORMOUSLY,

DUE IN GOOD PART TO THE FULL APPLICATION OF THE COST-
OF-LIVING ESCALATOR MECHANISM TO PENSION PAYMENTS.
WHILE EVERYONE MORE OR LESS AGREES THAT THIS DEFICIT
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HAS TO BE REDUCED, A CONSENSUS ON HOW TO DO THIS HAS
SO FAR PROVEN TO BE VERY ELUSIVE. ON THE REVENUE SIDE,
THE GOVERNMENT HAS MADE A NUMBER OF PROPOSALS TO
INCREASE TARIFFS AND FEES FOR VARIOUS PUBLIC SERVICES.
THESE, TOO, ARE STILL AWAITING THE REQUIRED AGREEMENT.

8. COMMENT. IN THE ABOVE ANALYSIS OF THE ENLARGED
PUBLIC SECTOR BUDGET FOR 1978 WE HAVE ASSUMED THAT
AN AGREEMENT WILL ULTIMATELY BE REACHED ON HOW TO
REDUCE THE SIZE OF THAT DEFICIT TO 24,000 BILLION
LIRE. IF AGREEMENT IS NOT REACHED, HOWEVER, THEN
A 29,000 BILLION LIRE DEFICIT WOULD NOT ONLY MEAN AN
UNPRECEDENTED JUMP IN THE DEFICIT, BUT THE WHOLE
ECONOMIC AND FINANCIAL STABILITY OF ITALY WOULD
UNDOUBTEDLY COME UNDER SEVERE STRAINS.
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Message Attributes

Automatic Decaptioning: X
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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